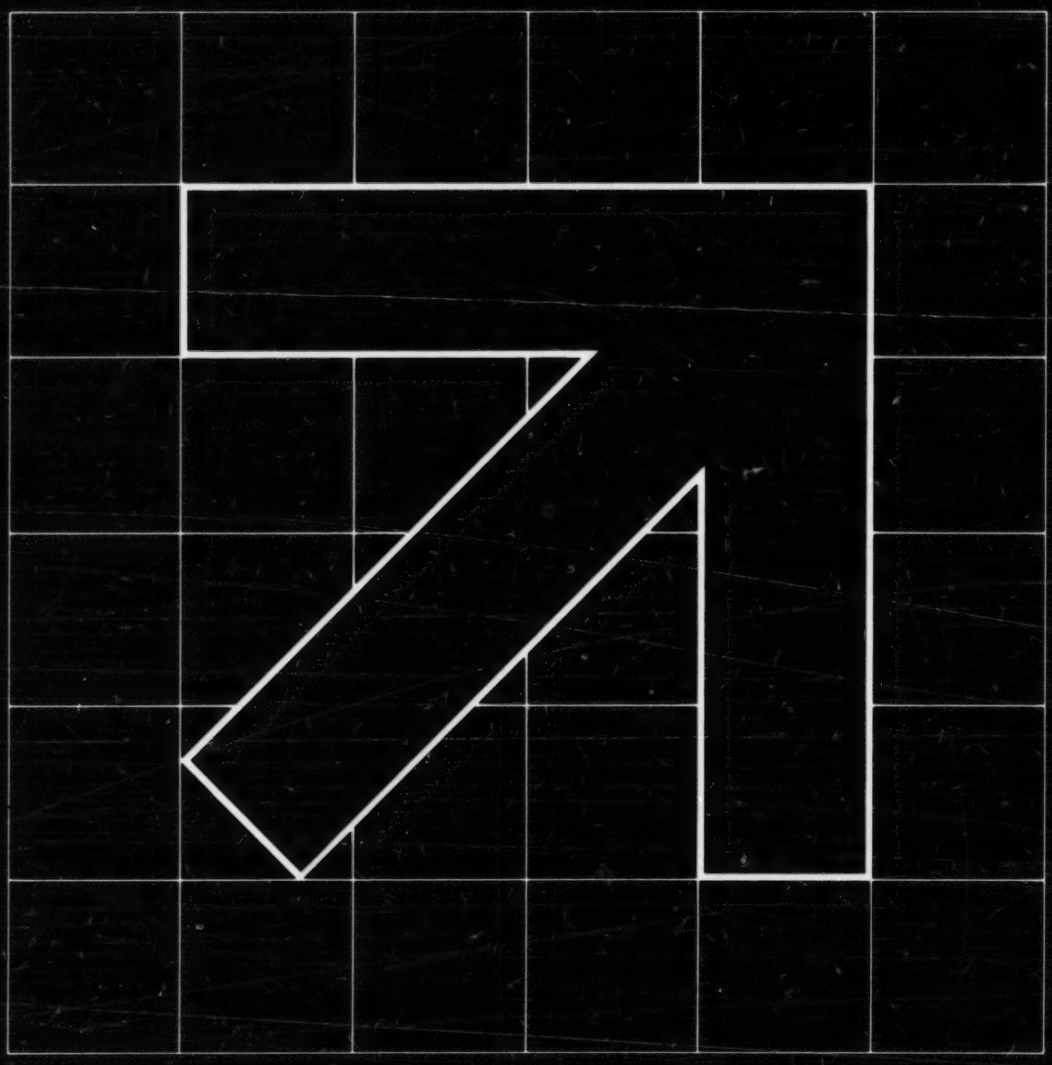
Minister responsible for Finance
and Privatization

The Privatization of Quebec's Crown Corporations: a Progress Report



Québec

PRIVATIZATION OF QUÉBEC GOVERNMENT CROWN CORPORATIONS

PROGRESS REPORT

Associate Minister for Finance
and Privatization

MARCH 1987

On December 2, 1985, the people of Québec gave the current government a mandate dictating a complete change of direction in relation to traditional economic policies. The proposed new approach calls on the government to shift its economic role to that of catalyst rather than entrepreneur, whose primary function is to create conditions favourable to entrepeneurship and growth.

The new approach to the role of government promotes privatization of Crown corporations as a means of increasing their efficiency and of adapting more quickly to the changing international economy.

However, in addition to the primary function of returning to the private sector operations that it can carry out more efficiently, privatization also has structural objectives which should improve and bolster Québec's key economic sectors. It is essentially a matter of pursuing three courses of action:

- Reinforcing Québec's industrial structure by looking to the entrepreneurship and dynamism of itsprivate sector;

- Stanching the flow of public funds in the case of certain Crown corporations

- Reorienting the purpose of other Crown corporations which have fulfilled their original mandate.

To achieve these goal, on December 12, 1985, the Prime Minister of Québec appointed Pierre Fortier, M.N.A. for Outremont, Associate Minister for Finance and Privatization and entrusted him with a mandate to direct the privatization procedure.

PROCEDURE

In February 1986, the Associate Minister for Finance and Privatization released a document outlining the orientations and plan of action underlining government policies for the reorientation and privatization of Crown corporations.

Privatization of Crown corporations: Orientation and Prospects also sets forth the six guiding principles which constitute the framework for the privatization process and procedure:

- **A greater role for the private sector:** the government believes that the commercial production of goods and services in Québec's economy belongs to the private sector, except in extraordinary circumstances justified by the public interest. Moreover, it is the emergence of an entrepreneurial class in Québec that provides confidence in this new dynamic.

- **The structural objective takes priority over the financial objective:** privatization is not an end in itself. When it must take place, privatization must be designed first to bolster Québec's economic structure while assuring Québec's presence in key economic sectors. Realization of a fair value for the assets transferred must also be considered.

- **A pragmatic approach:** privatization must be done pragmatically, case by case, and may be carried out in a great many ways, depending on conditions specific to the corporation and its industrial sector.

- **Recognized rules:** privatization is a public process which must comply with the equity and disclosure requirements applying to public companies.

- **Equitable treatment:** the government will make certain that employees, communities and, if applicable, suppliers are fairly treated during implementation of any rationalization procedure which proves necessary.

- **Genuine, productive competitors:** Crown corporations that maintain their status will have to perform in accordance with rigorous production criteria and strict rules with a view to offering genuine competition on the market.

Application of the six guiding principles defines an integrated operation, despite the great diversity of Crown corporations.

The entire privatization process will be overseen by the Associate Minister for Finance and Privatization. He will work in collaboration with a joint committee, made up of ministers assigned to a Crown corporation and the Minister himself, and will be assisted by an advisory committee and a task force. Two distinct phases characterize the privatization procedure (see Appendix 1):

- **Examining the strategic options.** The first step is to determine whether the Crown corporation should be denationalized, its status modified, its activities redirected or the status quo maintained.

- **Carrying out privatization.** Three general options can be considered for a Crown corporation: privatization, partial or complete; reorganization, followed by privatization; and reorientation.

From among the many Québec government Crown corporations, the Associate Minister for Finance and Privatization decided to concentrate on those with an industrial or commercial role, with the exception of Hydro-Québec and Loto-Québec.

IMPLEMENTATION

Raffinerie de sucre du Québec

On **March 10, 1986**, the Associate Minister for Finance and Privatization and the Minister of Agriculture, Fisheries and Food announced the signing of a draft agreement for the purchase of the **R.S.Q. (Raffinerie de sucre du Québec)** by Lantic Sugar Ltd. Lantic would buy the R.S.Q. shares for a cash sum corresponding to the net worth of the working capital, and a $40 million debenture, at 8.5% interest, which would enable a large part of R.S.Q.'s debt to be absorbed. Lantic Sugar Ltd. will pay $3.2 million for the working capital, i.e. the difference between current affects ($8.5 million) and current liabilities ($5.3 million). In addition, Lantic pledged an investment of $25 million over five years in Québec's only white sugar refinery, located in the east end of Montréal, as well as the transfer of the head office from Toronto to Montréal. The final agreement was signed in September 1986.

Provigo shares held by SOQUIA

On **March 17, 1986**, the Associate Minister for Finance and Privatization and the Minister of Agriculture, Fisheries and Food announced that, after having offered its shares in **Provigo** to several investors, SOQUIA (Société québécoise d'initiatives agro-alimentaires) had sold its interest to the Québec firm Unigesco Inc. The government felt it was important that this private enterprise be allowed to increase its holding in Provigo from 11% to 17%. The transaction enabled the Québec government to divest itself of its interest in Provigo with a capital gain of **$37.5 million** on a sale of **$48.4 million**.

Québecair

On **January 20, 1986**, the Prime Minister announced that **Québecair**, a subsidiary of the S.Q.T. (Société québécoise des transports), was to be privatized. A joint committee, made up of the Minister of Transport and the Associate Minister for Finance and Privatization, spent from March to May reviewing the possible privatization schemes and strategic options. Negotiations continued until July 28, 1986, between the government and buyers interested in a complete takeover of Québecair, i.e. the Leblanc group and the association of Québecair employees, known the Parent group. On **July 30, 1986**, the Conseil des ministres decided to sell to Nordair-Métro (the Leblanc group). The draft agreement stipulates a base price of $21 million with a possible drop to $10 million if adjustments stipulated in the agreement are implemented. The final contract has not yet been concluded, although the new management has been taking full financial responsibility since August 1, 1986.

The transaction will also enable the S.Q.T. to recover $3.5 million through the sale of Nordair shares held by Québecair. This amount is added to the $10 million and represents a $13.5 million source of funds for the S.Q.T. The sales contract guarantees regional service, the opportunity for employees to become shareholders, hiring of Québec pilots, and maintenance of a base of operations in the province.

Société nationale de l'amiante

LAQ-BELL-ACL Group: **On July 1, 1986**, in order to put an end to their chronic deficits (losses at March 31, 1986 of $14.1 million for ACL and $9.3 million for BELL) and consolidate astestos operations (lowering of production and sales costs) in view of a

shrinking market, the two subsidiaries in S.N.A.'s mining sector, Asbestos Corporation Ltd. (ACL) and les Mines d'amiante Bell Ltée (Bell), joined with other private producers in the Thetford-Mines region - Mines Camchib Inc. and Lac d'amiante du Québec Ltée (LAQ) - to form a limited partnership under the name Chrysotile Lab Inc. (LAB). This mining group, of which ACL and BELL own 45% and LAQ owns 55%, was approved in August 1985, but only came into being on July 1, 1986.

On **July 17, 1986**, the Québec government sold the 50% block of shares that the S.N.A. (Société nationale de l'amiante) held in **Distex-SNA** to the Brandford, Connecticut firm Echlin, for $3.2 million. On **July 30, 1986**, assets of the subsidiary **Lupel-SNA Inc.** were sold to Papiers Cascades Inc. for $5.62 million. The purchaser assumed the liabilities. In addition, an agreement between **Fusoroc Inc.**, a subsidiary of the S.N.A. and Cafco Industries Ltd., a new Québec subsidiary of the U.S.M. (United States Minerals Products Company), was concluded on July 30. By virtue of this agreement, Cafco rents installations belonging to Fusoroc for an amount based on earnings. Cafco has a 24-month purchase option; the price of the assets has been set at $2.9 million.

A plan for privatizing S.N.A. manufacturing subsidiaries separately was presented on July 30, 1986. It anticipated a minimum $13 million recovery by 1992. Concurrent with this privatization project, financial adjustment measures for the S.N.A. have been formulated, including management of all asbestos mines by Lab Chrystile Inc., a limited partnership, in order to rationalize operations and consolidate existing jobs.

On **October 21, 1986, Céram-SNA Inc.** signed an agreement with a group of buyers from the Thetford-Mines region granting the exclusive rights to manufacture refractory products based on patented S.N.A. technology (Minutt-SNA).

Céram-SNA Inc. granted exclusive rights to technology based on calcination of asbestos residue and to the manufacturing of products resulting from this technique. During the next five (5) years, the company will pay a 5 per cent royalty on the net selling price of its production. In addition, the company will invest $1 912 000 in the project.

To facilitate this investment, the Ministry of Industry and Commerce has guaranteed a loan of $375 000 through its CAPI program. At the end of the five-year period, the new owner can acquire the residue calcination technology and patents outright by paying a 5 per cent royalty on the sale price of finished products over the next ten (10) years.

The company will also build a plant with an annual capacity of 40 000 tonnes. Operations will begin before December 31, 1987, and the project will save ten (10) jobs and create at least ten (10) others.

On **December 8, 1986, Tuyaux Atlas**, a Division of the S.N.A. subsidiary Atlas Turner Inc., was sold to a group of its employees with support from the Fonds de solidarité des travailleurs du Québec (F.T.Q.). The agreement will help spur business for the 70 000-square-foot plant located in the east end of Montréal.

The Fonds de solidarité des travailleurs du Québec made the project possible by investing $350 000 - $50 000 in capital

stock and $300 000 in the form of a loan, two-thirds of which is guaranteed by the Société de développement industriel du Québec.

The management group invested $250 000 in capital stock and obtained a $500 000 line of credit with the bank.

SOQUEM

On **April 29, 1986,**, the Associate Minister for Finance and Privatization and the Minister responsible for Mines and Native Affairs announced the partial privatization of **SOQUEM** (Société québécoise d'exploration minière). Some of the better assets were combined as the subsidiary **Cambior**, which, in turn, was privatized through a public share issue. When distribution closed on **August 13, 1986**, 15 750 000 shares were in public hands (SOQUEM retained 7 million shares). The proceeds of the issue totalled **$157.5 million**, of which $65.5 million came from Québec, $42 million from the rest of Canada and $50 million from the international market. The Québec government, through SOQUEM, retains a 31% interest in Cambior; however, the Associate Minister for Finance and Privatization has clearly indicated the government's willingness to withdraw from Cambior, in a gradual, orderly way, over the next few years.

Madelipêche

On **February 25, 1986**, a joint committee composed of the Associate Minister for Finance and Privatization and the Minister responsible for Fisheries was created to begin examining options for the Crown corporation **Madelipêche**, whose asset a located on the Iles-de-la-Madeleine (Magdalen Islands).On **October 20,**

1986, the government announced its decision to sell the corporation. Potential buyers had until December 19, 1986 to place their bids and the government came to a decision on **February 12, 1987:** Madelipêche entities would be sold individually.

Prior to the sale, Madelipêche owned the processing plant in Cap-aux-Meules, the plant in Étang-du-Nord, a fishing fleet and a wholly-owned subsidiary, Crustacés des Iles Inc., a corporation which in turn owns the plants in Havre-Aubert and Grande-Entrée. Each holding was listed separately in the call for tenders.

Delaney, a group of 11 businessmen from the Iles-de-la-Madeleine and the C.T.M.A. (Coopérative de transport maritime et aérien), bought the Madelipêche shares, not including the subsidiary Crustacés des Iles, for $2 602 921. The amount could drop after adjustments, to account for losses incurred between October 4, 1986 and February 16, 1987. It should be noted that this amount represents the book value of the shares as of October 4, 1986. The new owners assume the liabilities, estimated at approximately $23 million. Another group of businessmen from the Iles-de-la-Madeleine, operating as Multi-Pêches Inc., bought the Grande-Entrée plant for $475 000. Neither purchase will result in a loss of jobs; in fact, the diversity of Multi-Pêches Inc. operations should increase both the duration and number of jobs.

There has been no bid for the Havre-Aubert plant; however, on December 31, 1987, the government and Delaney negotiated a management contract with purchase option.

Société générale de financement

On **April 29, 1986**, a joint committee composed of the Associate Minister for Finance and Privatization and the Minister of Industry and Commerce was created to begin examining options for the S.G.F. (Société générale de financement).

On **September 30, 1986**, the Associate Minister for Finance and Privatization and the Minister of Industry and Commerce revealed the reorientation and new mission of the S.G.F. In the future, the S.G.F. would no longer act as an industrial holding company, but as a development company, whose objective is to promote and implement, together with private partners - both Canadian and international - industrial development projects in key sectors of the Québec economy. This should be carried out in keeping with Québec government economic development policies.

On **October 14, 1986**, the Associate Minister for Finance and Privatization and the Minister of Industry and Commerce announced that the S.G.F.'s interest in Donohue Inc. and Domtar Inc. would be sold off. Two information circulars were made available to potential buyers.

Dofor received preliminary proposals for the purchase of all its holdings in Donohue.

The S.G.F. received preliminary proposals for the purchase of all its holdings in Dofor.

On **February 18, 1987**, the Associate Minister for Finance and Privatization and the Minister of Industry and Commerce announced that Dofor Inc. had sold its 56% block of shares in Donohue for **$320 million** cash.

A new company made up of Québecor (51%) and British Printing and Communication Corp. (49%), which publishes The Daily Mirror, a London newspaper, turned in the highest bid and met the conditions laid down in the information circulars released in October 1986 following the decision to sell. The purpose of the conditions was to ensure that:

- control of the company remains in Québec hands, even in the event of future transactions;

- Donohue's head office and centre of activity remain in Québec City while the head office and decision-making centre for the buyer (Québecor / British Printing and Communication Corp.) is located in the province of Québec;

- plants remain in full operation and jobs are protected;

- projects under way or proposed in each region are continued.

Conditions of the sale are the following:

1. The new owner promises to keep its head office and principal decision-making centre in the province of Québec and to keep the head office and centre of business activity for Donohue in Québec City. The majority of the members of the board of directors, as well as senior executives, should reside in Québec;

2. The financial structure of Donohue will not be modified;

3. The buyer can sell his block of shares only under certain conditions;

4. The buyer will maintain normal and fair business relations with other Donohue shareholders;

5. The buyer will do everything possible to see that Donohue actively continues projects under way and continues to contribute

to regional development. To ensure this, Donohue's new majority shareholder will do everything possible to carry out projects revealed by Donohue, i.e.:

- the Clermont plant: final work on the installation of machine #5;
  study of a proposal to install one or more drying presses;

- the Amos plant: profitability studies for the installation of a second newsprint machine;

- in Matane, top priority: feasibility and profitability studies for the installation of a paper mill;

- in forestry regions: research in forest regeneration and environmental protection.

6. The purchase price is set at $320 million, to be paid in cash at the time the contract is signed, which must be before July 31, 1987.

Finally, Québecor agreed to maintain the stock option plan for Donohue employees.

The Associate Minister for Finance and Privatization and the Minister of Industry and Commerce indicated no final bid had been made for the 28 per cent interest in Domtar held by Dofor. Certain bidders had made preliminary proposals but none turned in a final bid. The main reason was the strong uptrend in market prices between the end of January and mid-February: from January 27 to February 9, 1987, the closing price rose from $37.00 to $49.50 per

share. The Associate Minister for Finance and Privatization therefore announced that Dofor would continue as major shareholder for this block of shares, and that at the appropriate time and in a manner yet to be determined, the government would proceed with the sale of its 28 per cent interest in Domtar.

SOQUIP

On **May 29, 1986**, a joint committee made up of the Associate Minister for Finance and Privatization and the Minister of Energy and Resources was created to examine strategic options for SOQUIP (Société québécoise d'initiatives pétrolières).

SOQUIA

On **June 18, 1986**, a joint committee composed of the Associate Minister for Finance and Privatization and the Minister of Agriculture, Fisheries and Food was created to begin the examination process for SOQUIA. The committee was mandated to analyze the disposal of Culinar shares held by SOQUIA, and to examine the future orientation of SOQUIA after analyzing its current activities and possible options. These last two points are currently under study.

Pêches Nordiques

In **December 1986**, the government, acting through SOQUIA, issued a call for tenders for Pêches Nordiques assets: the boats "Cristina Logos" and "Lumaaq".

SOQUIA, the majority shareholder, has a 94.4% interest in Pêches Nordiques Inc., while Fruits de Mer de l'Est du Québec, the minority shareholder, owns 5.6%.

The Crown corporation's accumulated debt since 1979 amounts to $12 234 340.

On March 9, 1987, the Minister resposible for Fisheries announced the Québec government's decision to sell off SOQUIA's entire interest in Pêches Nordiques to Fruits de Mer de l'Est du Québec for $6.5 million.

It will be recalled that six (6) bids were submitted on January 19, 1987. The bid submitted by Fruits de Mer de l'Est du Québec, a wholly-owned subsidiary of Clearwater Fine Foods Inc. of Bedford, Nova Scotia, was the highest in monetary terms in addition to maximizing economic spin-off in Québec's fisheries sector, particularly for Matane.

Fruits de Mer de l'Est du Québec has made the following commitments:

- Fruits de Mer de l'Est du Québec agrees that all northern shrimp taken by the "Lumaaq", "Kristina Logos" or any other shrimper operating under its company licence will undergo initial processing at Matane unless this processing has already been carried out on board said shrimpers.

- The company agrees to invest a minimum amount of $250 000 in the Matane processing plant by 1990 at the latest to enable the Matane plant to carry out secondary processing of shrimp as prepared dishes or seafood meals. The company also undertakes to create at least 25 permanent jobs related to these operations;

- The company agrees that ownership of all boats, licences and fishing quotas shall remain in Québec;

- The purchaser undertakes to make the ground-fish quotas of Pêches Nordiques and Fruits de Mer de l'Est du Québec available to Québec processing plants.

In the event that Fruits de Mer de l'Est du Québec does not respect these principal commitments, the company must return its licences to SOQUIA.

Advisory Committee on privatization

On **July 2, 1986**, the Advisory Committee on privatization, appointed by the Prime Minister in January 1986, submitted to the Associate Minister for Finance and Privatization its report on privatization of Québec government Crown corporations, From the Quiet Revolution... To the Twenty-first Century.

CONCLUSION

In short, the Québec government's program for privatization of Crown corporations revealed in February 1986 clearly sets forth the government's position.

There are three types of intervention:

- to strengthen Québec's industrial structure by concentrating on the entrepreneurship and initiative of the province's private sector;

- to stop the financial hemorrhage of public funds into Québecair, the Raffinerie de sucre du Québec, the Société nationale de l'amiante and Madelipêche;

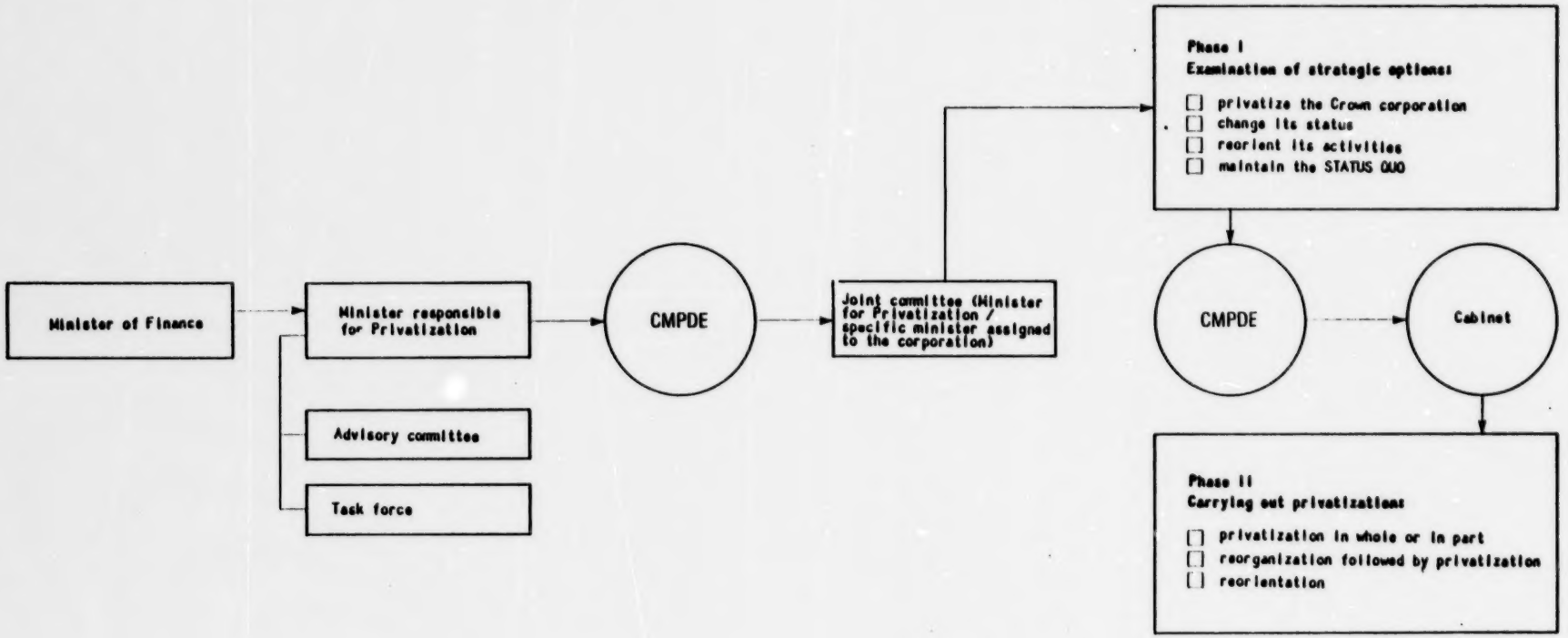
- to reorient the role of SOQUEM and the Société générale de financement.

APPENDIX 1

Québec

Gouvernement du Québec
Ministère des Finances
Ministre délégué à la Privatisation

TYPICAL PROCEDURE FOR THE PRIVATIZATION OF A CROWN CORPORATION



CMPDE: Comité ministériel permanent de développement économique

APPENDIX 2

COMMUNIQUÉS DE PRESSE

86-01 Le ministre Pierre Fortier dépose le document "Privatisation de sociétés d'État" - Perspectives et orientations

86-02 La privatisation de sociétés d'État: une analyse primordiale qui nécessite un examen et une analyse cas par cas

86-03 Privatisation de sociétés d'État: Perspectives et orientations

86-05 Le gouvernement du Québec met un terme à une hémorragie de 13 millions de dollars par année (Raffinerie de sucre du Québec)

86-06 Une transaction financière avantageuse pour l'économie du Québec (Raffinerie de sucre du Québec)

86-07 L'avenir de la production des betteraves sucrières - Nécessité d'une véritable politique sucrière au Canada

86-09 Les ministres Pierre Fortier et Raymond Savoie annoncent le processus de privatisation partielle de SOQUEM

86-10 Cambior - Symbole d'excellence québécoise du monde minier et des affaires

86-11 Le projet Cambior et les modifications au R.E.A.Q. dans le budget du gouvernement du Québec

86-12 Le ministre Pierre Fortier parlera de la politique de privatisation du gouvernement du Québec en Europe

86-13 La privatisation doit être un élément structurant de l'économie

86-14 Le gouvernement du Québec va de l'avant avec la privatisation de Cambior Inc.

86-15 Société générale de financement - Aucune offre n'est sollicitée

86-17	Quatre offres pour Québecair
86-18	Report de la date de tombée pour les offres d'achat de Québecair
86-20	Le Ministre accueille favorablement le rapport du comité aviseur sur la privatisation
86-21 A	Le mandat du Comité aviseur sur la privatisation
86-21 B	Le Comité aviseur recommande la privatisation de toutes les sociétés d'État des secteurs commercial et industriel du gouvernement du Québec
86-22	Cambior Inc.: Emission de 150,0 millions de dollars: un grand succès
86-23	Les ministres Marc-Yvan Côté et Pierre Fortier rencontrent les employés de Québecair
86-24	La privatisation des sociétés d'État au Québec: un élément structurant pour l'économie du Québec
86-26	La Société générale de financement - Une nouvelle mission
86-27	De "Holding" à "Développeur" - La Société générale de financement jouera un rôle de catalyseur
86-28	Avenir de certaines filiales de la Société générale de financement
86-29 A	La note d'information de Caron Bélanger Woods Gordon était publique
86-30	Mise en vente des participations du groupe SGF dans Donohue et dans Dofor (Domtar)
86-31	Deux circulaires de renseignements à la disposition des acheteurs intéressés à Donohue et à Dofor (Domtar)
86-33	La privatisation de Madelipêche pour relancer l'économie des Iles de la Madeleine

86-34 Vente de Madelipêche: Echéancier

86-35 Poursuite en cours: Aucune incidence sur la vente de Madelipêche Inc.

86-36 La privatisation de Québecair: positive pour les contribuables du Québec

86-37 La privatisation de Québecair: maintien des emplois dans le réseau aérien québécois

86-38 La vente des DC-8 à Nationair: une transaction sans aubaine

86-39 Cambior suit les fluctuations du prix de l'or

86-41 Formation d'un Comité consultatif sur les institutions financières

86-43 Madelipêche: Prolongation du délai de présentation des offres

86-44 Le gouvernement autorise une privatisation recréant 30 emplois dans l'Est de Montréal

86-45 La privatisation permet de recréer ou maintenir des centaines d'emplois dans le secteur de l'amiante

86-46 Vente de Madelipêche: six (6) offres sont déposées

87-01 Madelipêche: Les offres sont à l'étude

87-03 Le contrat de la R.S.Q. est maintenant public

87-04 Quelques précisions concernant le contrat de la R.S.Q.

87-07 La privatisation de Madelipêche: Les madelinots prennent le contrôle de leur économie

87-08 Privatisation de la société Madelipêche: Le groupe Delaney acquiert les usines de Cap-aux-Meules et d'Étang-du-Nord et assure la gestion de l'usine de Havre-Aubert

87-09 Privatisation de la société Madelipêche: L'usine de Grande-Entrée devient la propriété du groupe Hubert

87-10 Privatisation de la société Madelipêche: 7 offres ont été déposées

87-11 Annonces des décisions gouvernementales dans le dossier Dofor

87-12 Le gouvernement vend sa participation dans Donohue pour 320 millions de dollars

87-13 Vente des actions de Dofor dans Donohue: toutes les conditions sont respectées

87-14 Tous les projets en région seront poursuivis

87-15 Le projet d'une usine de pâtes et papiers à Matane: un dossier toujours très actif

87-17 Québecor / Donohue: Le ministre Fortier et le président de Québecor se rendent aujourd'hui en régions